

## Module 1—Payroll Taxes and Federal Income Tax Withholding

# Tax Tutorial

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In this tax tutorial, you will learn about [payroll taxes](#) and income tax withholding.

Employers withhold payroll taxes and income tax from employees' pay.

Employers send the amounts withheld to the federal government.

Employees complete Form W-4.

Employers use Form W-4 to determine how much income tax to withhold from employee pay.

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

The [Social Security](#) tax is also called the FICA (Federal Insurance Contributions Act) tax.

Social Security taxes provide the following benefits for employees and their dependents:

- retirement benefits
- benefits for the dependents of retired workers
- benefits for the disabled and their dependents

The [Medicare tax](#) is used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Federal income taxes finance:

- national defense, veterans, and foreign affairs
- social programs
- physical, human, and community development
- law enforcement
- interest on the national debt

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

Employers withhold taxes from employees' pay.

- Gross pay is the amount the employee earns.
- Net pay, or take-home pay, is the amount the employee receives after deductions.

The difference between gross pay and net pay is:

- Social Security taxes
- Medicare taxes
- income tax withheld
- other amounts withheld

Employers send the withheld taxes to the taxing authorities.

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

### Payroll Taxes

Payroll Tax Rates	
Social Security tax rate	6.20%
Medicare tax rate	1.45%
Total payroll taxes	7.65%

If an employee earns \$1,000, the payroll taxes are:

Social Security tax                      \$62.00

Medicare tax                                \$14.50

Total payroll taxes                        \$76.50

The employer sends the \$76.50 to the federal government.

**Tax Tip:** *There is a maximum annual amount of Social Security tax withheld per employee. Social Security taxes are not withheld on amounts over the earnings limit. This year, the earnings limit was \$97,500, and the maximum Social Security tax was \$6,045 (\$97,500 x 6.2%).*

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

[View Form W-4](#)

Employees complete Form W-4, Employee's Withholding Allowance Certificate. Employers use Form W-4 to determine how much federal income tax to withhold. The amount of federal income tax withholding depends on

- the employee's marital status,
- the number of withholding allowances claimed by the employee,
- any additional amount the employee wants to withhold, and
- any exemptions from withholding that the employee claims.

Review Form W-4 for Alicia Myers. Notice that Alicia is single and claims one withholding allowance.

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Form

**W-4**

Department of the Treasury  
Internal Revenue Service

# Employee's Withholding Allowance Certificate

OMB No. 1545-0074

**2007**

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

<b>1</b> Type or print your first name and middle initial.	Last name	<b>2</b> Your social security number <div style="border-bottom: 1px solid black; width: 100%;"></div>
Home address (number and street or rural route)		<b>3</b> <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <b>Note.</b> If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
City or town, state, and ZIP code		<b>4</b> If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ► <input type="checkbox"/>
<b>5</b> Total number of allowances you are claiming (from line <b>H</b> above or from the applicable worksheet on page 2)		<div style="border: 1px solid black; width: 40px; text-align: center; margin-bottom: 5px;"><b>5</b></div>
<b>6</b> Additional amount, if any, you want withheld from each paycheck . . . . .		<div style="border: 1px solid black; width: 40px; text-align: center; margin-bottom: 5px;"><b>6</b></div> <div style="border-bottom: 1px solid black; width: 100%;"></div>
<b>7</b> I claim exemption from withholding for 2007, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul>		
If you meet both conditions, write "Exempt" here . . . . . ►		
<div style="border: 1px solid black; width: 40px; text-align: center; margin-bottom: 5px;"><b>7</b></div>		

Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.

**Employee's signature**

(Form is not valid unless you sign it.) ►

**Date ►**

<b>8</b> Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	<b>9</b> Office code (optional)	<b>10</b> Employer identification number (EIN)
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## Module 1—Payroll Taxes and Federal Income Tax Withholding

### Comprehensive Example

Angela Viviano earns \$2,000 a month as a physical therapist's assistant. In addition to payroll taxes and income tax withholding, her employer withholds \$50 for her retirement account. Angela's net pay is calculated as follows:

Gross pay	\$2,000
Social Security tax (6.2 percent of gross pay)	-124
Medicare tax (1.45 percent of gross pay)	-29
Income tax (per Form W-4)	-220
Retirement	-50
Net pay	\$1,577

Angela earns \$2,000 and receives \$1,577.

Her employer sends \$373 (\$124 + \$29 + \$220) to the federal government and \$50 to the retirement fund.

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

### Quick Check!

Answer the following multiple-choice questions about payroll taxes and federal income tax withholding by clicking on the correct answers. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1) Which tax provides for medical benefits?

- A. FICA tax No answer given: the correct answer is D. Medicare taxes provide medical benefits for workers, retired workers, and their spouses when they reach age 65. The FICA tax, also known as the Social Security tax, provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Federal income taxes are used for national defense, foreign affairs, social programs, community development, law enforcement, and interest on the national debt. Social Security taxes, also known as FICA taxes, provide benefits for retired workers and their dependents as well as for the disabled and their dependents.
- B. Federal income tax
- C. Social Security tax
- D. Medicare tax

2) How much income tax do employers withhold from employee pay?

- A. 6.2% of gross pay No answer given: the correct answer is D. Employers use the information on Form W-4 to compute income tax withholding.
- B. 1.45% of gross pay
- C. 7.65% of gross pay
- D. Employers use the information on Form W-4 to compute income tax withholding.

3) Net pay

- A. is more than gross pay. No answer given: the correct answer is B. Net pay is also known as take-home pay. Net pay is less than gross pay. Net pay is gross pay minus payroll taxes (7.65% of pay), income



tax withholding, and other withholding amounts. Employees cannot choose the amount of Social Security tax withheld; the Social Security rate was 6.2% of gross pay.

B. is also known as take-home pay.

C. is gross pay minus 7.65%.

D. depends on how much the employee wants to pay in Social Security taxes

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## Module 1—Payroll Taxes and Federal Income Tax Withholding

### Quick Check!

[View Form W-4](#)

Review Form W-4 for Ahmed Khan by clicking the button *View Form W-4*. Then, answer the following questions by typing your answers in the space provided or by clicking on the correct answer. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1 ) Who completed Form W-4?

Type your answer here [No answer given: the correct answer is Ahmed Khan.](#)

2 ) Is the taxpayer married or single?

A. married [No answer given: the correct answer is B.](#)

B. single

C. divorced

D. widowed

3) How many allowances does the taxpayer claim?

Type your answer here [No answer given: the correct answer is 3.](#)

4) How much additional tax does the taxpayer want to be withheld? (For Example: 1000.00)

Type your answer here [No answer given: the correct answer is \\$50.00.](#)

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----- Cut here and give Form W-4 to your employer. Keep the top part for your records. -----

Form <b>W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 <b>2007</b>	
1 Type or print your first name and middle initial. <b>Ahmed</b>		Last name <b>Khan</b>		2 Your social security number <b>111 00 8576</b>	
Home address (number and street or rural route) <b>269 Central Blvd.</b>		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.			
City or town, state, and ZIP code <b>Anytown, US xxxxx</b>		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>			
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5		3	
6 Additional amount, if any, you want withheld from each paycheck		6		\$ 50.00	
7 I claim exemption from withholding for 2007, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here		7			
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.					
Employee's signature (Form is not valid unless you sign it.) ▶					
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)		10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2007)

## Module 1—Payroll Taxes and Federal Income Tax Withholding

### Lesson Summary

Employers withhold payroll taxes and income tax from employees' pay.

Employers send the amounts withheld to the federal government.

Employees complete Form W-4.

Employers use Form W-4 to determine how much income tax to withhold from an employee's pay.

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## Module 1—Glossary

### Glossary

**Medicare tax** —used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

**payroll taxes** —include Social Security and Medicare taxes.

**Social Security tax** —provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the Federal Insurance Contributions Act (FICA) tax.

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